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REPORT OF THE INTERGOVERNMENTAL GROUP OF EXPERTS ON IRON ORE ON ITS FOURTH SESSION

held at the Palais des Nations, Geneva
from 23 to 25 October 1995

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INTRODUCTION

1. The fourth session of the Intergovernmental Group of Experts on Iron Ore was held at the Palais des Nations, Geneva, from 23 to 25 October 1995.

2. In the course of the session, the Group held two plenary meetings. At its 7th (opening) meeting on 23 October, it decided to pursue its discussions on agenda items 3, 4, 5 and 6 in informal meetings. It was agreed that a summary of the informal discussions for inclusion in the report would be presented by the Chairman at the closing plenary meeting.

3. In his introductory statement, the **Officer-in-charge of the Commodities Division of UNCTAD**, welcoming government representatives, and experts from the iron ore mining sector, the steel industry and international organizations, pointed out that, thanks to their effective participation, the annual sessions of the Group of Experts had become a well-established event for the iron ore business community. It was so not only because it had been contributing to enhanced dialogue between those involved in the world iron ore scene, but also because it provided a good opportunity to renew contacts and harmonize perceptions about current and future iron ore developments in the mutual interest of all.

4. He recalled that UNCTAD was in the phase of preparations for the ninth session of the United Nations Conference on Trade and Development, which would be held in South Africa in April-May 1996. On that occasion, the future of UNCTAD's intergovernmental machinery and its work programme would be discussed and decided. Therefore, the views of the Group would be a useful input to these discussions.

5. In 1994, iron ore trade had reached an all-time record level. Reflecting the strength of economic recovery, the upsurge in global steel demand, particularly in developed market-economy countries, had led to a rise of 7.5 per cent in world iron ore exports. Globally, world iron ore mine output had risen by 3.5 per cent, exceeding 970 million tons of ore. Regrettably, however, the iron ore industry had not fully benefited from the recent boom of the iron ore market for two main reasons. First, because the tighter supply situation had not prevented another collapse in prices, which had fallen sharply by 9.5 per cent in 1994 - in a downward trend for the third consecutive year. Only in 1995 had iron ore prices started to recover. Much of this was due to the inherent time lags built into the particular pricing scheme in force for iron ore, and the question had been raised whether a structure involving shorter time lags might serve the industry better. Secondly, because iron ore is priced in United States dollars, the weakness of the United States currency had eroded part of the exporters' gains. Importers, however, had greatly benefited from this situation, particularly in Japan and Germany, where steelmakers had paid for cheaper ore with strong currencies.

6. Another interesting development in the iron ore market in 1994 had been the fact that the driving force behind the upswing in global iron ore trade had come from the industrialized countries, in particular the European Union and the

United States. This was evidence that the binomium iron ore/steel remained essential for the world economy, even in the most advanced countries. Iron ore/steel-based products, such as automobiles and machinery, continued to retain a leading role in their trade balance and key steel-consuming sectors continued to dominate the world economy.

7. The representative of **France** and Chairman of the Group at its third session, recalling that the Intergovernmental Group of Experts on Iron Ore had been in existence for almost 10 years, stated that it had done a very good job, mainly in two areas: the exchange of information and statistics and the exchange of views and opinions among producers and consumers of iron ore. He foresaw a good future for the Group.

Chapter I

REVIEW OF IRON ORE STATISTICS AND OF OTHER INSTITUTIONS' ACTIVITIES AND PUBLICATIONS ON IRON ORE

(Agenda item 3)

A. Review of the document "Iron ore statistics 1987-1994" (TD/B/CN.1/IRON ORE/17)

8. The UNCTAD secretariat presented this document containing 28 tables with updated statistics, based on the replies received to the UNCTAD questionnaire on iron ore. This document included two new tables: (i) a summary table providing totals for iron ore production, consumption, imports and exports, which facilitates a quick glance at recent market trends; and (ii) a table (number 10) with available data for exports of lump ores for 1993 and 1994. As of mid-July 1995, 38 countries and the European Commission, on behalf of the 15 member countries of the European Union, had responded to the questionnaire, i.e. the same number of respondents as in the previous year.

9. Given the growing importance of metallics trade, a special effort had been made to complete, as much as possible, the tables showing figures of exports and imports of scrap and pig iron for 1994. Recalling that one of the aims of the Group was to compile comparable statistics, the secretariat drew attention to the importance of filling in the questionnaire using the commonly agreed definitions, in particular as regarded production data for the different iron ore products. During the discussions, it was agreed that new footnotes should be included in the tables for the production of agglomerates (sinter and pellets), so as to clarify the difference between output that originated from mines and output from steel mills.

10. Revisions and up-to-date statistics were provided by participants for inclusion in the revised version of the document (TD/B/CN.1/IRON ORE/17/Rev.1), distributed in the course of the session.

B. Year-to-date statistics and estimates for 1995 and 1996

11. At the beginning of the session, the secretariat distributed the informal document entitled "Year-to-date iron ore statistics and forecast for 1995 and 1996", presenting information on iron ore production, consumption and trade for the first half of 1995 and estimates for the whole of 1996. These data had been provided in reply to the secretariat's request to the major producing and consuming countries at the beginning of September 1995. The document included a summary table comparing the data from January to June 1995 with data for the corresponding period of 1994 for iron ore production, consumption and trade for the key countries involved in the world market, as well as detailed quarterly

statistics on iron ore, iron and steel production for 16 countries. The secretariat expressed its thanks to these countries for their cooperation in providing timely statistics. The Group considered the information useful, particularly in connection with the Group's assessment of the current market situation in 1995.

12. In addition, a mini-questionnaire was distributed to the participants in order to collect the latest statistics available and/or estimates of key data for 1995 and 1996 for those countries that had not yet provided them. Supplementary year-to-date statistics and estimates for 1995 and 1996, presenting the latest data provided by governments and industry during the session, was made available to participants at the end of the session, as an informal document entitled "Latest iron ore statistics available for 1995 and estimates for 1996, supplemented by data provided by delegates during the session".

13. The secretariat also informed the Group that it had focal points for the provision of iron ore statistics in 90 countries, one more than in the previous year. It stressed the importance of statistical focal points to speed up the collection of the annual and the year-to-date iron ore statistics.

C. Other institutions' activities and publications on iron ore

14. For its review of activities and publications on iron ore carried out by other institutions and in individual countries, the secretariat presented its document "Annotated bibliography on iron ore - 1995" (TD/B/CN.1/IRON ORE/19). It contained brief summaries of studies and worldwide activities in the field of iron ore and related issues, based on information available to the secretariat and material provided by UNCTAD member States and international organizations.

15. The representative of the **United Nations Economic Commission for Europe** made a presentation on the sixth updating of the publication "Iron and steel scrap: its significance and influence on further developments in the iron and steel industries", which was in the pre-publication phase. Copies were made available to the participants. This issue maintained the long statistical series, but concentrated on the striking developments of recent years. He highlighted two important conclusions of the study. The first was that when scrap prices were expressed in a common currency, the evolution of different quotations appeared very similar in different countries. This indicated that the world scrap market had become a single entity. The second conclusion was that, in the medium term, there appeared to be no danger of scrap shortage. Scrap supply and demand had to be considered along with other competitive ferrous materials such as directly reduced iron (DRI) and pig iron and their relative prices.

Chapter II

REVIEW OF THE CURRENT SITUATION AND OUTLOOK FOR IRON ORE

(Agenda item 4)

Review of the current situation and outlook for iron ore - 1995
(TD/B/CN.1/IRON ORE/18)

16. The representative of the **UNCTAD secretariat**, presenting the document describing market developments in 1994 and the first half of 1995, stated that the year 1994 had marked a new peak for world iron ore trade. Global exports had risen by 7.5 per cent, reaching a record of 430 million tons (Mt). The peak of iron ore trade had resulted mainly from the sharp rise of 16 per cent in the volume of iron ore imports into the European Union. Demand for all iron ore products had remained steady and the supply of pellets and lumps had been particularly tight. Moreover, as scrap prices had remained high, demand for primary iron had boosted iron ore consumption. Australia and Brazil had continued to dominate the market, but almost all major exporters had benefited from favourable market conditions. Moreover, it was observed that the boom of iron ore shipments in 1994 had led to one of the sharpest rises in freight rates over the last 10 years, favouring suppliers which were close to major consuming markets.

17. World steel production had declined slightly in 1994 due to the impact of the 20 per cent drop of steel output in the Commonwealth of Independent States (CIS). However, as steel demand had risen by 7 per cent in OECD countries, the world steel market had picked up strongly during that year. Trade and prices of steel products had increased.

18. The rebound of the steel market had aggravated the situation of the market for metallics in 1994. Supplies had been extremely tight and there had been growing concerns about a possible shortage and the escalation of metallics prices. Given the firmness of the steel market and the growing number of mini-mills, the scrap market had been very tight in 1994. New peaks had been reached in prices in August 1995. The high level of scrap prices has greatly contributed to raising iron ore trade to record levels.

19. World production of iron ore had totalled 970 Mt in 1994, 3.5 per cent above that of the preceding year. The strongest increases were from Canada, Brazil and South Africa. Brazil had become the largest producer of commercial ores in 1994. Iron ore mining activities had also accelerated in Australia, Sweden, the United States, India and Mauritania. At the same time, iron ore production had continued to fall sharply in the CIS.

20. With the rapid pace of privatization, the iron ore industry was shifting from its traditional national structure towards globalization. Important changes

were taking place in the structure of ownership and control of the iron ore mining industry, particularly in Brazil, China, India and the Russian Federation.

21. It was remarked that the market upturn of 1994 and the better prices in 1995 had led to the acceleration of ongoing construction of pellet plants, as well as encouragement of new investment decisions.

22. Mr. J. Rogers, from the Société Générale de Surveillance (Switzerland), made a presentation entitled "Quality considerations in the production and trade of iron ore". He stated that the quality demand of iron ore buyers had been steadily increasing and that great emphasis was being placed on minimizing quality variation through the application of quality-assurance methods. In the past, quality control had been practised by inspecting final products and, particularly, individual shipments. More recently, however, emphasis had shifted to quality assurance in all stages of the production and transport process. A major advance consisted of the development of ISO 9000, a standard against which all quality assurance systems could be evaluated. Achieving ISO 9000 certification meant that a company had upgraded its internal quality assurance system to international standards. It did not guarantee, however, that a company's written procedures were correct, or that its processes were as efficient as they might be.

23. Steel companies were increasingly requiring their suppliers of coal and iron ore to become certified to ISO 9002. Therefore, 70 per cent of the worldwide iron ore trade had already achieved ISO 9000 certification or was working towards it. He foresaw that the value of shipments would cease to be determined by traditional port-based quality measurement services, with a gradual shift to using production and on-line analysis data for commercial purposes. On-line analysis systems would have important applications in sorting and blending operations as real time data would be available on which to base process decisions. Finally, he said that mining companies would use subcontractors on a far more frequent basis than at present and that subcontractors would begin to take equity positions in project infrastructure in their area of expertise.

24. Mr. A. Tricket, from the International Iron and Steel Institute, presented the Institute's recent publication, "The World Market for Iron Ore". He observed that iron ore demand during the 1980s and early 1990s had been characterized by relative stagnation and even decreased needs in the advanced industrial countries, and by the rapid growth of requirements of the newly industrializing countries of Asia, Latin America and the Middle East. These trends were likely to continue to 2005. It was foreseen that world requirements for iron ore would approach the level of 950 Mt in 2005, with the bulk of the increase over 1995 coming from Asia and, to a lesser extent, Latin America. While world consumption of iron ore between 1995 and 2005 would increase at a relatively modest rate of 1 per cent a year, its geographical pattern would change considerably. The share of developing countries (including China) would expand from 39 per cent to 47 per cent over that period.

25. On the supply side, changes since the 1980s had been less pronounced than on the demand side. The dominant position of Australia and Brazil had been strengthened and India was consolidating its position in the world market. The

study foresaw an increase in world iron ore production capability from 924 Mt in 1993 to 975 Mt in 2000 and 982 Mt in 2005. The bulk of expansions would come from Australia, Brazil, India and Venezuela. In terms of products, most would come in the form of fines. Pointing to the probable future balance of the market, he stated that the margins between supply and demand would continue to be small and a shortage of iron ore might develop, despite the substantial expansions in production capabilities until 2005.

26. Mr. M.M. Boucraut, former Director of the Raw Materials Division of Sollac, Usinor-Sacilor Group, made a presentation entitled "What is the future of iron ore in the coming years?". He said that the world steel industry was evolving in two directions: (i) the spread of electric furnaces using mainly scrap and pre-reduced iron; and (ii) the development of new processes of smelting reduction. In this context, it was essential for mining companies to guide their strategies so as to be able to supply products that would respond to the quality requirements of the steel industry, taking account of the latter's technological and geographical evolution, as well as the timing of future demand. He foresaw that, in the coming years, the world supply of iron ore would approximately follow demand; however, he expressed his concern about the possible emergence of a small deficit of lumps and of a larger deficit of pellets. He suggested that iron ore mining companies take this forecast into account when formulating their production plans. Referring to the production of fines, he foresaw that supply would be abundant. In the future, mining companies should undertake fines production through the pre-reduction route in countries with low prices for gas or coal.

27. Mr. C. S. Mohan, Chairman-cum-Managing Director of the National Mineral Development Corporation Ltd. (India), made a presentation entitled "Indian Iron ore Scenario: Perspectives for Iron Ore 2010". He recalled that Indian iron ore production had increased constantly, particularly from 1960 onwards. The expansion of output had been spurred by the increase of both export demand and domestic consumption. At present, the public sector accounted for 56 per cent of domestic output, with the private sector producing the balance.

28. Until recently, most of this production had been exported, but in future domestic steel production was expected to absorb most of the domestic iron ore output. Indian steel production was forecast to grow from 27 Mt in 1996/97 to 67 Mt by 2010/11. Consequently, domestic demand for iron ore would soar from 49.6 to 125.2 Mt over the same period. Therefore, the country would have to produce an additional amount of 90 Mt of iron ore in order to meet domestic demand and also to maintain the level of exports. In order to achieve this, production from existing mines would be increased to the optimum rate and new large mechanized open-cast mines with a capacity of around 10 Mt each would be commissioned.

29. Dr. K. Chadha, Director of the Ministry of Commerce of India, made a presentation entitled "Exports of Iron Ore". She said that the Task Force had foreseen that the country could potentially export approximately 30 to 35 Mt of iron ore from now into the beginning of the twenty-first century. Exports were sustainable thanks to the geological endowment of iron ore reserves, notwithstanding the growing domestic production of steel. Iron ore exports had become a self-sustaining activity, which did not need any export assistance

scheme. For reasons of transport cost, the natural outlets for Indian exports would continue to be Japan, the Republic of Korea and China. Finally, she stated that India's fiscal, industrial, financial and trade policies had undergone considerable changes since July 1991. These included the end of virtual State monopoly in mineral exploration and the drive to attract private investment to the iron ore industry.

30. Mr. L. Antonenko, Deputy Chairman of the Committee on Metallurgy of the Russian Federation, made a presentation on the "State and Prospects for the Development of Raw Materials Sources of the Iron and Steel Industry". He said that the country's iron and steel industry had been hard hit by the industrial recession that had affected such metal consumers as machine-building, defence and construction since 1990. In the context of falling domestic demand, Russian enterprises had striven to direct their production to exports, which had risen by 20 per cent in 1994.

31. Turning to iron ore mining, he stated that there were 40 open-cast mines operating, but that their average iron ore content was lower than in other large producing countries. Moreover, Russian mines had a higher consumption of material resources, fuel, energy and labour per ton of finished products than foreign enterprises. Activities leading to the commissioning of new mines had been suspended since 1991 and, as a result, the capacity to produce marketable iron ore had fallen by 14 per cent. The elimination of the system of centralized financing had contributed to this. Existing companies could not invest in exploration because of the financial difficulties that they were undergoing. Therefore, he foresaw a possible dramatic fall in mining capacity until the year 2000. In order to counter that fall, the Committee for Metallurgy of the Russian Federation was undertaking the Federal Programme for Technical Re-equipment and Development of Metallurgy in Russia (1995-2000). Its foremost aim was to provide Russian metallurgy with its required raw material and preserve the industry's export potential.

32. During the discussions, the experts expressed satisfaction at the topics chosen by the guest speakers as they had prompted a constructive debate.

33. Experts from governments and industry reported on developments in their national markets and the activities of companies. In particular, the Group was informed of developments in the iron ore market in Australia, Brazil, Canada, India, the Republic of Korea, the Russian Federation, South Africa, Sweden and the United States of America.

34. A lively exchange of views on current world developments assisted the Group in forming a clearer picture of the present market situation and a probable outlook for the remainder of 1995 and for 1996. In the light of the debates, and on the basis of the "Latest statistics and forecast for 1995 and 1996", the Group's assessment was that global demand for imported ores in 1995 was growing even faster than in 1994. Trade figures accounting for 85 per cent of world iron ore trade indicated that iron ore exports had grown by 13 per cent and imports by 11.5 per cent during the period January-June 1995, as compared to the same period of 1994.

35. Faster economic growth and higher levels of industrial output had led to a 4 per cent rise in world steel output during the first nine months of 1995. As a result, world iron ore consumption and trade had increased sharply. This new peak in world iron ore trade reflected the sharp rise of demand in the main import markets, in particular: (i) the spectacular rise of over 50 per cent of iron ore imports into China; (ii) the acceleration of industrial and steel production in Japan, which had led to an increase of 7.5 per cent in Japanese iron ore imports during the first half of 1995; and (iii) the higher levels of investment which continued to stimulate total steel output and demand for imported ores in the European Union's 15 member States, particularly in Germany, France and Italy. Furthermore, the even higher levels of ferrous scrap prices, which had reached new peaks in 1995, had caused a surge in demand for primary iron products and, therefore, in iron ore trade. World supply of pellets and lumps remained tight. The outlook for the iron ore market in 1996 was positive, but another peak seemed unlikely. However, price rises were probable particularly because of bottlenecks in the supply of specific products.

Chapter III

ACTION TAKEN AT THE CLOSING PLENARY MEETING */

36. At its 8th (closing) plenary meeting, on 25 October 1995, the Intergovernmental Group of Experts on Iron Ore agreed on the following text:

> Government representatives, industry experts and iron ore companies reaffirmed that the work of the Intergovernmental Group of Experts on Iron Ore was unique and extremely useful to producers and consumers, and they expressed their support for such work. It was recalled that the statistical work and the exchange of views that took place within the Group was an important contribution to increasing market transparency. Appreciation was expressed for the quality of the work done by the UNCTAD secretariat, the timely collection and dissemination of statistics and the accurate assessment of the current market situation.

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*/ In this connection, see also chapter IV, section D (preparations for the fifth session of the Intergovernmental Group) and section E (Other business).

Chapter IV

ORGANIZATIONAL MATTERS

A. Opening of the session

37. The fourth session of the Intergovernmental Group of Experts on Iron Ore was opened on 23 October 1995 by Mr. Jacques Astier (France), Chairman of the third session.

B. Election of officers

(Agenda item 1)

38. At its 7th (opening) meeting, on 23 October 1995, the Intergovernmental Group of Experts on Iron Ore elected Ms. Zonia Osorio de Fernández (Venezuela) as Chairperson and Mr. Mitsunori Namba (Japan) as Vice-Chairman-cum-Rapporteur.

C. Adoption of the agenda

(Agenda item 2)

39. At the same meeting, the Group adopted the provisional agenda for its fourth session (TD/B/CN.1/IRON ORE/16) as follows:

1. Election of officers
2. Adoption of the agenda and organization of work
3. Review of iron ore statistics and of other institutions' activities and publications on iron ore
4. Review of the current situation and outlook for iron ore
5. Preparations for the fifth session of the Intergovernmental Group of Experts on Iron Ore
6. Other business
7. Adoption of the report to the Standing Committee on Commodities.

D. Preparations for the fifth session of the Intergovernmental Group of Experts on Iron Ore

(Agenda item 5)

40. The Group agreed on the following substantive items for inclusion in the provisional agenda for its fifth session, pending decisions to be taken during the ninth session of the United Nations Conference on Trade and Development regarding the future of the intergovernmental machinery of UNCTAD:

- Review of iron ore statistics and of other institutions' activities and publications on iron ore;

- Review of the current situation and outlook for iron ore.

41. Taking into account the provisions already made under the UNCTAD calendar of meetings, the Group proposed that its fifth session should be held from 21 to 23 October 1996.

E. Other Business

(Agenda item 6)

42. The Group agreed that a possible application by it to the Common Fund for Commodities for designation as an eligible International Commodity Body should be considered only after decisions by UNCTAD IX on the future of the intergovernmental machinery of UNCTAD.

43. Discussing the timeliness of statistics to be made available to countries by the UNCTAD secretariat, a suggestion was made that the secretariat supply advance data to countries on some key indicators (production, exports and imports). These should be based on the early receipt of replies to the secretariat's questionnaire. The secretariat informed the Group that a special effort could be made during the next year to disseminate such statistics by end-June to those countries that had replied to the questionnaire by that time. This should encourage all countries interested in such information to reply to the questionnaire in a timely fashion.

F. Adoption of the report to the Standing Committee on Commodities

(Agenda item 7)

44. At its 8th (closing) meeting, on 25 October 1995, the Group of Experts adopted the draft report on its fourth session (TD/B/CN.1/IRON ORE/L.4), with amendments and additions, and authorized the Rapporteur to complete the final report as appropriate.

Annex

ATTENDANCE */

1. The following States members of UNCTAD were represented at the session:

Algeria
Argentina
Australia
Benin
Brazil
Canada
Cuba
France
Germany
India
Japan
Madagascar
Netherlands
Portugal
Republic of Korea
Romania
Russian Federation
Slovakia
South Africa
Spain
Sweden
Switzerland
Thailand
Turkey
United Kingdom of Great Britain and Northern Ireland
United States of America
Venezuela

2. The Economic Commission for Europe was represented at the session.

3. The following specialized agency was represented at the session:

International Monetary Fund

4. The following intergovernmental organizations were represented at the session:

African, Caribbean and Pacific Group of States
Arab Labour Organization
European Community
Organization of African Unity

5. The following non-governmental organization was represented at the session:

General Category

World Federation of United Nations Associations

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*/ For the list of participants, see TD/B/CN.1/IRON ORE/INF.4.

Invited experts

Mr. L. Antonenko, Deputy Chairman of the Committee on Metallurgy of the Russian Federation

Mr. M. Boucraut, former Director, Raw Material Division, Sollac - Groupe Usinor Sacilor, Paris

Dr. K. Chadha, Director of the Ministry of Commerce of India

Mr. C.S. Mohan, Chairman-cum-Managing Director of the National Mineral Development Corporation Ltd. (India)

M. J. Rogers, Vice Président, Société Générale de Surveillance SGS, Genève

Mr. A. Trickett, General Manager Economic Affairs, International Iron and Steel Institute, Brussels